

Message Text

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ACTION EB-04

INFO OCT-01 SS-04 ISO-00 NSC-04 NSCE-00 TRSE-00 FRB-03

INR-01 INRE-00 CIEP-01 CIAE-00 DRC-01 RSC-01 /020 W

----- 028134

P 161329Z SEP 74

FM AMEMBASSY LONDON

TO SECSTATE WASDHDC PRIORITY 3910

C O N F I D E N T I A L LONDON 11943

LIMDIS GREENBACK

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: XGDS-1

TAGS: EFIN, UK

SUBJECT: TOUR D'HORIZON WITH CHANCELLOR HEALEY

SUMMARY: TREASURY REPS HAD INFORMAL TOUR D'HORIZON WITH CHANCELLOR HEALEY ON WIDE RANGE INTERNATIONAL TOPICS. HE IS CONCERNED ABOUT MAGNITUDE OF PETRODOLLAR RECYCLING IN COMING MONTHS. HE TOOK SPECIAL PRIDE IN THE FACT THAT THERE HAD BEEN NO RUN ON STERLING DURING HIS TENURE AS LABOUR CHANCELLOR AND THAT NONOIL DEFICIT IS BEING PROGRESSIVELY REDUCED. HE REGRETTEED HE HAD BEEN TOO TOUGH ON INDUSTRY IN THE MARCH BUDGET AND THAT THE OVERALL EFFECT OF THE BUDGET HAD ERRED BY BEING TOO RESTRICTIVE. LOOKING AHEAD, HE IS CONFIDENT OF REMAINING CHANCELLOR AFTER THE NEXT ELECTION AND SEES AN IMPORTANT NEED TO INTRODUCE MORE DEMAND INTO THE UK ECONOMY. HOWEVER, GIVEN TIME LAGS THIS WOULD NOT HAVE SIGNIFICANT EFFECT ON THE ECONOMY BEFORE 1976. END SUMMARY.

1. TREASURY REPS HAD WIDE RANGING TOUR D'HORIZON WITH CHANCELLOR HEALEY ON SEPTEMBER 13. HIS VIEWS ON CHINESE MEMBERSHIP IN IMF REPORTED SEPARATELY. TREASURY REPS ASKED FOR ELABORATION IN HIS LENGTHY SPEECH ON INTERNATIONAL MONETARY QUESTIONS(LONDON 11768), ESPECIALLY VIEWS
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ON ROLE THAT BIS AND USA WOULD PLAY IN RECYCLING EXERCISE.

HEALEY BELIEVES BIS CAN PLAY USEFUL INTERMEDIARY ROLE TAKING DEPOSITS FROM ARABS AND RELENDING THEM TO NEEDY BORROWERS. THERE WOULD BE TECHNICAL CONSIDERATIONS TO BE OVERCOME, INCLUDING POSSIBLY GUARANTEES FROM BORROWERS, BUT THESE COULD BE WORKED OUT. HE SAW NO PARTICULAR PROBLEM ARISING FROM FACT THAT BIS IS A CENTRAL BANKERS' INSTITUTION. HEALEY REMARKS INDICATED UK HAS NOT COMPLETELY THOUGHT THROUGH ALL THE DETAILS INVOLVED AND HE ADMITTED THERE ARE DIFFERENT VIEWS HELD BY HIS ADVISERS ON ROLE BIS COULD PLAY. (IN SEPARATE CONVERSATION SIR DEREK MITCHELL ADVANCED THOUGHT THAT ANONYMITY PROVIDED BY BIS MIGHT ALSO APPEAL TO THE ARABS.)

2. ALL THIS SAID, HEALEY ADDED THAT THE IMF AND WITTEVEEN II, I.E., A FURTHER FACILITY OF GREATER SIZE BUT WHICH WOULD BORROW AND LEND AT COMMERCIAL RATES OF INTEREST, ARE FAR MORE PROMISING AND IMPORTANT THAN ANYTHING BIS CAN DO.

3. HEALEY BELIEVES EC FINANCE MINISTERS ON SEPTEMBER 16 WILL APPROVE IN PRINCIPLE A \$1 BILLION BORROWING FROM THE ARABS, BUT HE TERMED THIS UNIMPORTANT, NOTING THE RELATIVELY SMALL SIZE OF THE BORROWING. HIS TONE AND COMMENTS INDICATED SKEPTICISM THAT THE EC ITSELF WOULD HAVE A MAJOR ROLE IN THE RECYCLING EXERCISE. HE NOTED GERMAN RELUCTANCE; THEY PROBABLY BELIEVE THEY WOULD BE CALLED ON EVENTUALLY TO PAY MOST OF THE BILL.

4. HEALEY IS CONVINCED THAT IN COMING MONTHS THE US WILL RECEIVE A LARGE FLOW OF OPEC FUNDS OVER AND ABOVE ITS NEEDS TO FINANCE OIL DEFICIT. (SIMILAR POINT MADE IN CONVERSATION BETWEEN GOVERNOR OF BANK OF ENGLAND, GORDON RICHARDSON, AND MINISTER-COUNSELOR OF ECONOMIC AND COMMERCIAL AFFAIRS AND TREASURY REPRESENTATIVE.) HEALYE EXPECTS THAT IF THE U.S. DOES NOT RECYCLE THE EXCESS FUNDS IT WILL RECEIVE, THE RESULT MAY BE APPRECIATION OF US EXCHANGE RATE AND FALL IN U.S. INTEREST RATES WITH COMPLICATIONS FOR MONETARY POLICY; THE PROBLEM IS NOT IMMEDIATE, BUT IT WILL COME. THERE IS A STRONG NEED FOR CONTINGENCY PLANNING AND FOR FURTHER DISCUSSION OF THE TOPIC.
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5. ANOTHER PROBLEM CITED BY HEALEY IS THE DIFFERING ESTIMATES OF THE SIZE OF THE OPEC SURPLUS AND THE ABSORPTIVE CAPACITY OF THE OIL PRODUCERS FOR IMPORTS. THERE ARE WIDE MARGINS BETWEEN VARYING NATIONAL ESTIMATES. THE UK ESTIMATES THAT THE OPEC COUNTRIES ARE LIKELY TO HAVE AN ANNUAL SURPLUS OF CLOSE TO \$80 BILLION. COUNTRIES WILL NEED TO COORDINATE CLOSELY AND EXCHANGE INFORMATION IN ORDER TO BE

AS CERTAIN AS POSSIBLE THAT THEY ARE NOT MISJUDGING THE SITUATION AND HAVE AS COMPREHENSIVE AN UNDERSTANDING AS POSSIBLE. THE UK TREASURY WILL CERTAINLY COOPERATE AND DO ITS PART.

6. TREASURY REPS COMMENTED THAT UK WAS NOT ENTERING AN ELECTION PERIOD. LOOKING BACK? WHAT ACCOMPLISHMENTS MOST PLEASED HEALEY DURING HIS TENURE? HE REPLIED THAT AS A LABOUR CHANCELLOR HE WAS MOST PROUD THAT THERE HAS BEEN NO RUN ON STERLING AFTER THE ELCTION. HE WAS VERY PLEASED ABOUT THIS. NEXT, HE CITED THE IMPROVEMENT IN THE NONOIL BALANCE OF PAYMENTS. HEALEY SAID THE SHARP IMPROVEMENT IN AUGUST TRADE FIGURES MAY BE AN ANOMALY AND SHOULD NOT BE GIVEN TOO MUCH IMPORTANCE (SEE LONDON 11849) BUT HE WAS CONFIDENT THAT BRITAIN WOULD STEADILY ACHIEVE BALANCE ON ITS NONOIL TRADE ACCOUNT BY THE END OF 1975.

7. HEALEY CONSIDERED THAT HIS LARGEST MISTAKE HAD PROBABLY BEEN "TO PUNISH INDSTUTRY TOO HARD." HE SPECIFICALLY MENTIONED THE ACCELERATED PAYMENT OF CORPORATION TAX AND THE INCREASE IN THE ADVANCE CORPORATION RATE INCLUDED IN HIS MARCH 1974 BUDGET. LOOKING AHEAD, HE SAID WAYS MUST BE FOUND TO INCREASE INDUSTRIAL PROFITS AND INVESTMENT WITHIN THE CONTEXT OF THE LABOUR PARTY'S OVERALL PROGRAM. HE ADDED THAT HIS MARCH 1974 BUDGET JUDGMENT HAD ALSO BEEN WRONG. IT HAD OVERESTIMATED THE DEGREE OF UNDERLYING DEMAND IN THE ECONOMY AND HAD BEEN TOO DEFLATIONARY.

8. THE CHANCELLOR EXUDED CONFIDENCE THAT BOTH HE AND THE LABOUR PARTY WOULD BE RETURNED TO POWER. LOOKING AHEAD, ONE OF HIS PRIMARY CONCERNS WILL BE TO INTRODUCE MORE DEMAND INTO THE ECONOMY. HIS NEXT BUDGET IN NOVEMBER COULD NOT DO THIS IN TIME TO AFFECT GROWTH AND ECONOMIC RESULTS
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IN 1975. HIS MAIN PROBLEM WOULD BE TO INSURE SUFFICIENT REFLATION IN 1976. HE WAS NOT PROUD OF THE UK'S GROWTH RECORD THIS YEAR.

9. IN PARTING, THE CHANCELLOR EXPRESSED CONSIDERABLE INTEREST IN THE ECONOMIC SUMMIT IN THE U.S. HE HOPED ONE RESULT WOULD BE SOME SOFTENING IN THE RIGOR OF US ECONOMIC POLICY AND MENTIONED THE IMPORTANCE OF MAINTAINING AN ADEQUATE LEVEL OF WORLD DEMAND.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, DIPLOMATIC DISCUSSIONS, FOREIGN POLICY POSITION
Control Number: n/a
Copy: SINGLE
Draft Date: 16 SEP 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: cunninfx
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LONDON11943
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X1
Errors: N/A
Film Number: D740258-0981
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740943/aaaabkx.tel
Line Count: 164
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: cunninfx
Review Comment: n/a
Review Content Flags:
Review Date: 26 JUN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 JUN 2002 by cunninfx>; APPROVED <06 MAR 2003 by cunninfx>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: TOUR D'HORIZON WITH CHANCELLOR HEALEY SUMMARY: TREASURY REPS HAD INFORMAL TOUR D'HORIZON WITH
TAGS: EFIN, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005